

BY INVITATION | KARTHIK RAMAMURTHY & VIJAY AYYAR

# Time for a reality check

Manufacturing, no doubt, is the next wave of growth; but India has to gear up for the challenges

**T**HE Indian economy has been experiencing sustained growth of over 8% over the past couple of years. Until a few years back, it was the services story. But, today manufacturing is the next wave of growth with the sector clocking a double-digit growth every quarter in the past couple of years. All of a sudden India, once known for its capability to churn out knowledge workers, has become a darling of the manufacturing sector. MNCs are looking at India to balance their dependence on China for manufacturing requirements due to similar cost structures.

Keeping this in perspective, a quick introspection leads us to ask ourselves, "Are we ready for such growth?" While millions of service dollars could be churned out by a set of engineers writing code out of a garage in Bengaluru, can a manufacturing player do the same?

There is no doubt that India severely lacks infrastructure to support this growth. So, even assuming there is no lack of investment dollars, it's probably a lack of supply of supporting infrastructure that's going to be the Achilles' Heel in our manufacturing sector's growth.

Let's consider a classic case, some time ago, where an MNC was considering setting up a manufacturing plant in India. The top management of the company was gung-ho about growth in the Indian market and looked towards setting up an Indian plant for catering to the burgeoning local demand and for exports. A core team had flown down to India for short listing a suitable location.

Considering their manufacturing process and business plans, nearness to port was the most important factor. Therefore, they zeroed in upon the coastal plains as a potential location. They had the Western Coastal Region on top of their minds as it is comparatively easier to export goods to their target markets in Europe, Central Asia and parts of Africa.

Given this scenario, they zeroed in on the states of Maharashtra, Gujarat and Karnataka which showed promising growth and which are also positioned as investor friendly states with dedicated government divisions for facilitating investments.

As a next step, the management team along with our consulting team had detailed discussions with the executives of various industrial development corporations. Extensive analysis was done based on various parameters including ports, connectivity, supporting infrastructure, tax, manpower, investment climate etc. Discussions were held with the suppliers and other stakeholders across the supply chain.

Once the analysis was complete, they faced one major challenge—there was



no sizeable industrial plot of around 100 acres available at most of the short listed locations and locations which had plots to offer lacked basic infrastructure. Roads, water, electricity connections, and other amenities were either not present or not up to expected standards.

One of the options they had was to bid for land available outside the various industrial development corporations' zones, but that option was considered risky for the lack of clear title deeds.

This leads us to ask ourselves—are we prepared for the influx of manufactur-

ing FDI? Is our government able to provide adequate support in the form of proper infrastructure to investors who are willing to set up a base here? The consultants working on the case came out with interesting statistics which revealed that most of the SEZs available in these

three states were meant only for the IT & ITeS Sector. On the other hand, general SEZs have no land left. Places like Ranjangaon in Pune district and Bhiwandi in Thane district of Maharashtra, which score high on attracting foreign investments have no industrial plots available. Similar is the case with Gujarat, where industrial hubs like Jamnagar, Rajkot and Vadodara have nothing to offer to investors. On the other hand, places like Mangaon in the Raigad district of Maharashtra and Bhuj in the Kutch district of Gujarat have a substantial amount of land available but with inadequate infrastructure.

Can we expect companies to set up shop when we provide no assurance of basic infrastructure? While we compare ourselves with investment havens such as Dubai and Shanghai, the process of investor wooing is so much the opposite in these places. The authorities there spend time and money in developing areas and in ensuring world class infrastructure and then invite companies to set up plants. The climate is so much more conducive for investment.

Do we expect companies to overlook all these basic features and blindly trust the India growth story? It is well known that India's current infrastructure is well below par. We could soon see companies exiting the country out of sheer frustration and inconvenience and this could really cause a ripple effect which could be disastrous.

How do we address this issue? The government must take the initiative of balancing demand and supply and it goes without saying that basic amenities need to be provided. Some serious steps should be taken toward building good roads and the rail network and power generation hubs should be such that it is distributed properly across the industrial belts. There has to be a scientific and systematic approach in analysing the basic requirements of the manufacturing sector vis-a-vis the services sector and accordingly land should be developed and promoted. We must make use of our IT prowess and should utilise IT to manage land records and other information about land availability and ownership. Data must be readily available for the investor to have a complete picture of the ground level situation.

This can only be done when there is a conscious effort by the authorities to step into the investors' mind and understand their requirements. Manufacturing FDI?—about time for a serious reality check.

**MNCs are looking at India to balance their dependence on China for manufacturing requirements**

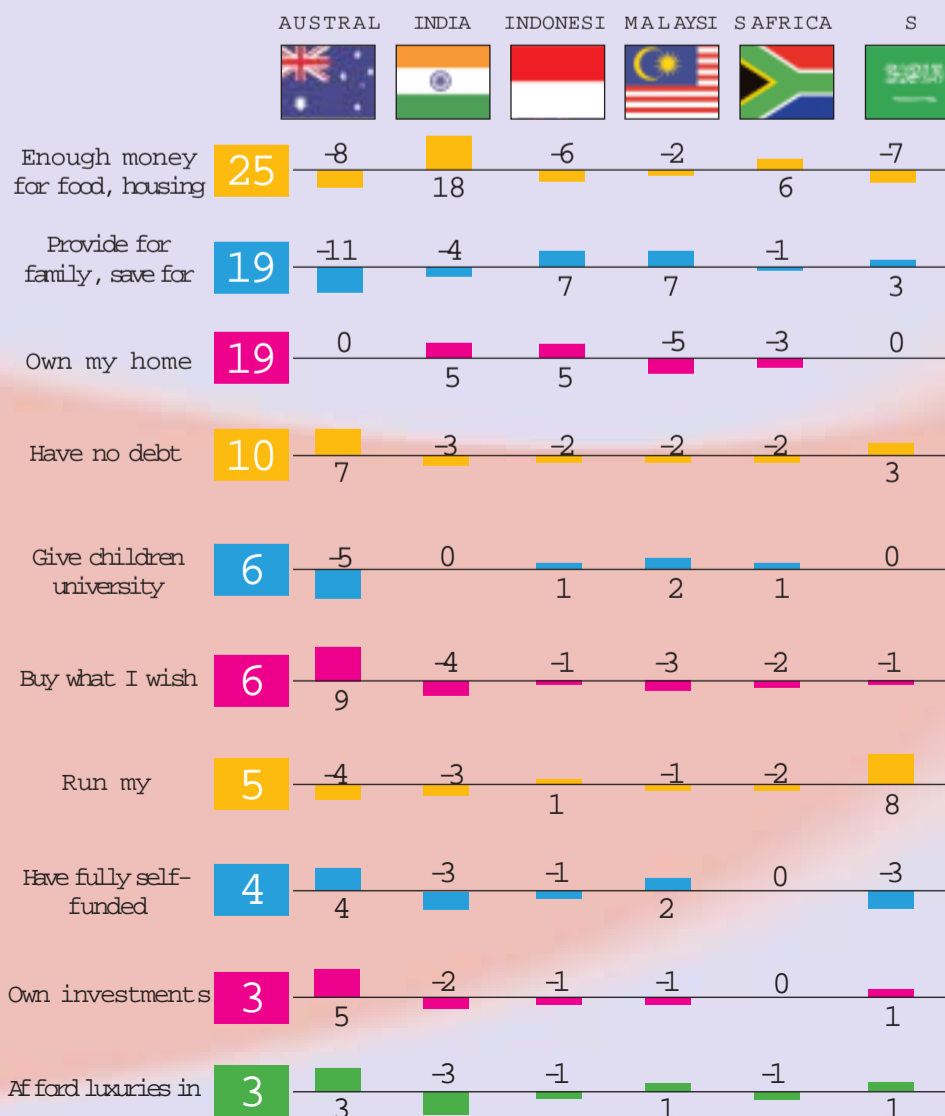
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**India, known for its knowledge workforce, has become the darling of the manufacturing sector**

## FINANCIAL SUCCESS WHAT IT MEANS

This study was conducted in January-February 2008 among adults in Australia, India, Indonesia, Malaysia, South Africa and Saudi Arabia, to measure the attitude of people in these countries towards money



### Summing it up

**Australia**  
It is the most financially mature of these six markets. Australians have a strong purchasing power and they are more likely to invest and afford luxuries in life.

**Saudi Arabia**  
Average in terms of half way between Australia and the developing Asian markets. Financial success to them is to be debt-free and run their own business.

**India**  
Financial success to Indians is more about fulfilling basic needs of food and housing. Owning a home is the key indicator of financial success.

**South Africa**  
To South Africans too, financial success means fulfilling basic needs

**Indonesia**  
Financial success to Indonesians is about owning a home, providing for family and saving for the rainy day.

**Malaysia**  
Financial success to Malaysians is about providing for family and saving for the rainy day, as is giving

Figures in %

Graphics :

STATISTICS SPEAK